



## Do you speak payments?

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International payment solutions provider" and "international POS device manufacturer" are sexy descriptions for some top payments industry organizations. However, while processing card transactions and selling payment products and services worldwide can offer bountiful revenue streams, taking a payment business from local to global requires tremendous patience, financial wherewithal and trusted relationships.

ISOs and merchant level salespeople (MLs) are anomalies in the global payment landscape. In many countries, only a small number of banks control the processors; financial institutions outside of the United States look at acquiring as a service that is part of the banking relationship.

But payment veterans agree that, for those prepared to invest the time and resources, the financial rewards can far outweigh the risks of offering merchants the ability to globalize their operations.

### **Cross borders, divergent platforms**

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While the risk versus reward scenario on the international payment processing scene is favorable, the criteria required to participate on the global stage can discourage even the hardiest and most entrepreneurial processor, acquirer or payment solutions provider. Even for France-based payment solutions firm Ingenico, which has merchants in 90 countries and physical locations in 27 of those, the task can be daunting.

"It can be a nightmare at times," said Lisa Shipley, Senior Vice President of Sales and Marketing for Ingenico North America. "Social customs, the rules of engagement and the certifications are unique to every country. And these requirements have to be adhered to and understood because the individual sovereignties completely control how you do business in that country. It's all very specialized, so really the easiest way for anybody to do this is to find a partner already there."

A greater number of U.S.-based financial institutions are not yet doing cross-border payments for several reasons: Start-up costs can be prohibitive, the rules and regulations vary from country to country and governments greatly influence, sometimes dictate, the rules that control electronic payment processing and settlement and the organizations allowed into their respective countries.

According to Justin Anderson, Vice President, Americas, for Shanghai-based mobile payment solutions provider Blue Bamboo LLC, knowledge of the EMV (Europay, MasterCard Worldwide and Visa Inc.) compliance standard is required in many foreign markets.

"Some U.S. firms haven't developed the internal DNA to understand the trends evolving in foreign markets, and they may not yet be comfortable with chip and PIN technology, which is prevalent in places like Canada and the U.K., and contactless, which dominates in Asia," Anderson said. "And total solution delivery to these markets requires a strong understanding of how these technologies have been adopted and what all the integration points look like."

## **Drilling down, verifying authenticity**

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Melody Wigdahl, Global Merchant Sales Director at UseMyBank Services Inc., said that before a payment organization can even consider doing cross-border transactions, it has to be compliant with the various anti-money laundering (AML) laws that govern the tracking of money across borders, as well as other local laws and regulations. It is also imperative that a company know its customers as well as its customers' customers.

"[International payment processing and settlement] is a whole different set of hoops, and all of the countries affected by terrorism and cybercrime require that if you're moving money, you need to know exactly where it's being sent from and who it's going to," Wigdahl said. "The average processor in the U.S. doesn't have that network of international contacts and trusted relationships and subsequently has difficulty drilling down to get the proper documentation.

"It's a very detailed process when you get into the whole world of AML and **OFAC [Office of Foreign Assets Control]** laws, but all merchant account information has to be run through an international database and scrubbed to make sure they're not on any blacklist - and I don't mean Visa or MasterCard, but organizations like **Interpol** and the **FBI**. Complying with these laws and regulations and verifying a company's legitimacy is standard operating procedure," she added.

OFAC, part of the **United States Department of the Treasury**, publishes a list of geographic regions and governments under economic sanctions or trade embargoes. Many of the sanctions are based on mandates from the **United Nations** and other international bodies.

In addition to targeted countries, OFAC publishes a list of **Specially Designated Nationals and Blocked Persons (SDN)**, which includes over 6,000 companies and individuals with whom U.S. citizens are prohibited from doing business.

Since OFAC's programs are constantly changing, payment institutions seeking to enter the international market must regularly check OFAC's Web site to ensure their SDN list is current and that they have complete information regarding the countries and parties with whom they plan to conduct business. Most important, all U.S.-based individuals and entities doing international business, as well as all foreign subsidiaries owned or controlled by U.S. companies, regardless of location, must comply.

## **Security standards, compliance oddities**

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Shipley estimated that in some countries it can take up to a year to develop thin-client applications, which contain the bulk of a computer's programs in a central server. She added that companies can count on another three to six months for processor certification, and that costs to bring a new product online can exceed \$1 million; consequently, only companies with strong finances and global brand recognition are rolling the dice to expand.

"Even for international players, that is a ridiculous time to get to market," Shipley said. "Some big hotel chain wants your business, and you're going to tell them that they'll have their hardware in 12 months? You've just lost an opportunity that may not come around again." She added that Ingenico has recently launched a proprietary, thin-client architecture that enables the company to bring all payment applications to a merchant's countertop in fewer than 30 days.

It is also important, when entering the international arena, to consider "how you can incorporate value-added services, how can you take the expense factor out of managing thousands of terminals in the field and how to continually find ways to create recurring revenues," Shipley noted.

The idea is to take the merchant out of the data loop, she said. "By removing their responsibility to store it, they don't have to satisfy those **PCI [Payment Card Industry]** and **PA DSS [Payment Application Data Security Standard]** requirements," she said. "Let it come to us - but then again, that's exactly where the business model is going."

To standardize implementation of existing security standards, reduce fraud and enhance risk management services, Ingenico and payment solutions manufacturers VeriFone and Hypercom Corp. founded the Secure POS Vendor Alliance in 2009. The SPVA's mission is to reach out to competitors and establish an influential voice in the regulation of payment transaction security mandates.

"One of the objectives of the SPVA is to make it easier for our customers to navigate through the security regulations and take some of the confusion out of a market with a plethora of standards, particularly for some of our multinational merchants," said Stuart Taylor, Vice President, Global Solutions and Marketing, Hypercom.

"Collectively, as manufacturers, we can push a little harder to try and harmonize some of these standards, but a continuous effort is required by all."

### **Additional pressure, spurred growth**

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In addition to greater standardization of security compliance regulations, increased competition, adoption of payment technology in less mature markets and greater penetration rates into new markets have also contributed to an international growth spurt in payments.

"The initial 17 percent of the top 100 Internet companies globalized their businesses by 2006 and saw great success through this effort," said Carrie Bardeen, Senior Vice President, Sales and Marketing, North America for payment and security solutions provider Payvision. "This not only increased competition for online businesses, but consumers also realized there were options for them to purchase in the currency of their choosing."

Bardeen said consumers' needs have been outstripping the industry's ability to meet them. "Consumers continue to put pressure on merchants who don't offer this option to their international customers," she said. "That forces merchants to put pressure on their acquirers to implement better payment systems. Additionally, we're seeing staggering growth with U.S. and European merchants wanting to get as many foreign currencies settled as possible."

Bardeen believes that for payment professionals, international payments is currently the most lucrative of all payment sectors. She said there are plenty of reseller channels in the global arena for ISOs and MLSs, as well as payment opportunities for acquirers and processors, but that they must be willing to become educated on the different marketing, treasury and technology requirements. "But after that, the game is very similar," she said.

Rahul Gupta, President of Card Services for payment solutions provider and processor Fiserv Inc., sees factors that point to the type of growth in emerging markets worldwide that the U.S. experienced two decades ago. "Adoption cycles and penetration rates for payments are fairly low still in parts of Asia, Europe, and certainly in Latin America and Africa," Gupta said. "But they are rapidly increasing; economies are improving and people are traveling more."

Gupta noted that consumers want electronic payments, both at home and especially overseas, where they don't want to carry cash. "And corporations are asking how to get more efficient with their payment methods, how to get more involved with global trade and commerce," he added. "New generations are clearly going to mobile and the Internet for banking and payments, so the root cause will continue to be fundamental demand worldwide for these offerings."

## **Blue Bamboo, green streams**

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While there might seem to be a veritable laundry list of requirements to become an international payment solutions provider or processor, the potential in terms of reaching new geographic and vertical markets is enormous. Blue Bamboo saw such huge potential for mobile payments that it started manufacturing its own devices and proprietary platforms.

"Our management team decided not just to resell POS devices but to create our own brand," Anderson said.

"We saw a niche emerging in the mobile payment space, so we developed our own product lines about five years ago. We've seen our business grow significantly, especially since entering the U.S. market, because now we can offer our products and services through ISO reseller channels."

According to Guillermo Lizasoain, Blue Bamboo's Global Product Management Director, about 50 percent of the company's customer base is in China and Asia, 30 percent is in the United States and the other 20 percent is spread out between Canada, South America and Russia.

"I think success in the international market boils down to consumer and merchant ease of use," he said. "Standardized and reliable payment solutions offer both parties many benefits of speed and security that cash can't provide."

"And much of the company's interest in deploying mobile POS devices and solutions to places like Argentina, Brazil, Curacao and Aruba are due to stronger and faster signals than in the U.S.," Lizasoain added.

The irony, according to mobile payment veterans, is that the United States is behind in mobile POS technology because of the country's extensive, land-based telecommunications network developed and built throughout the twentieth century.

Anderson noted that other countries were forced to develop better mobile networks because of the great difficulty - and expense - of getting landlines in place. Consequently, the logical solution for these regions was to go mobile.

"Mobile network infrastructures are in many ways superior abroad, which enables very reliable mobile payments even in the remotest areas," Anderson said.

"Other mobile innovations and secure solutions are evolving as well to allow ubiquitous adoptions." Anderson believes mobile technology is powering a substantial wave in the industry. "Look at the iPhone for example," he said. "The number of payment application downloads is amazing - and they have become more open in their interface protocols. Those types of patterns are happening all over. Current trends are converging into a very large and developing mobile payment movement around the planet - and this time it has legs."

## **Right partnerships, right people**

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Another component to successful global expansion is the use of partnerships in the integration of products and services. As more countries relax tariffs and other market restrictions, the business climate is becoming more conducive to the needs of international payment service providers looking to help local banks and acquirers grow their businesses.

"I do expect the bankcard regulations around foreign investments will continue to favor those who believe that continued market investment is a good thing," said Phil Kumnick, Senior Vice President of Global Payment Strategy Group at processor TSYS Acquiring Solutions. "We chose to partner with China UnionPay to enter that market as a third-party processor and adhere to the specific rules over what non-Chinese entities can do relative to transaction processing.

"But we also know that complete success also depends on being local - finding solid, local candidates who not only have experience in their country's local customs and laws, but who have a solid understanding of how the mature markets have evolved so they can avoid previous failures or borrow and improve on previous successful practices.

"We have those kinds of country managers in Brazil, India, China and Europe, so for us it's a win-win situation. It would simply be impossible to do that without someone in-country," Kumnick added.

John Hyde, President, International for Global Payments, said that even many high growth international markets have card penetration rates of 15 percent or less.

"We see abundant opportunities for organic growth as well as growth through strategic acquisitions and partnerships," Hyde said. "And over time, we should continue to see faster

growth from worldwide markets as card activity continues to converge steadily to U.S. levels."

Hyde added that achieving scale in this industry is critical to maintaining profitability. "So even the bigger competitors have entered international markets by purchasing portfolios of merchant or bank contracts, along with technology platforms, back-office operating capabilities and sponsorship into the card associations," he said. "And if this is not an option for a smaller competitor, the next best solution may be to establish a relationship with an existing market participant in a referral deal."

## **Small world, big horizons**

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Alan Moss, Vice President, Strategy and Marketing for Hypercom Southern Europe, sees huge potential for reaching a variety of new markets today. "I've been involved with deployment of card technology to unattended payment devices like ticketing kiosks and parking environments, basically anywhere that people want more payment convenience," Moss said. "We're also seeing tremendous growth in the health care business for authentication and payments.

"Even in mature markets we're seeing new segments open up all the time with **NFC [near field communication]** and contactless solutions. Additionally, and most exciting, there is a real spread of card payments globally. When I looked at regions like Eastern Europe, I thought, forget it, we're never going to have business here for about three generations. And yet going back just this year to Russia, I was amazed at how much people were paying by cards."

TSYS has observed that the underbanked and unbanked market segments in places like Latin America and India are growing rapidly and that deploying self-service kiosks gives the company tremendous opportunities to penetrate into those markets and build consumer confidence. "That is a segment we're serving more every day," Kumnick said.

"These are maturing markets and you're talking well over a billion people, so having kiosks to pay a bill or buy airfare or a bus ticket is finding its way into many corners of the world. But it takes finding and developing the right partnerships in any area. The world is a nation of shopkeepers, and local payment entities and governments are beginning to realize that it's no longer a one-size-fits-all solution," he added.

For U.S. financial institutions, the roads to international payments are rife with potholes, speed bumps and blind turns. But it has been said that fortune favors the brave; for merchant acquirers and payment processors willing to pay the tolls and finish the trip, the journey's end could be payment paradise.